SAFIN Workshop
Mapping Initiatives & Tools on Supply & Demand Side
27 November 2017
Rome

ACCESS Development Services
Enabling Economic Empowerment
Institutionalizing ACCESS
Spun out of CARE

The Entity
Incorporated on March 1, 2006, as a Section 25, “Not for Profit” company facilitated by DFID (Govt of UK) and CARE India

It’s Vision...
ACCESS is a global partner of choice providing inclusive and innovative livelihood solutions enabling the poor to overcome poverty and live with dignity

…and Mission
To build capacity of community-based institutions that deliver relevant financial and livelihood services to the poor and unreached households
ACCESS 3-Tier Approach
From primary producers to policy influencing

TIER III
Informing & influencing policy; strengthening & creating environment

TIER II
Advisory & Techno-managerial Services

TIER I
Subsector Interventions; building “Inclusive” value chains

- Influencing Policy
- Informing Programmes for the poor
- Intermediating with markets
- Investing in livelihoods innovations
- Impacting the Poor
On the ground, through our programmes, ACCESS has promoted 128 Producer Cos. in India.
ACCESS Universe

Specialized Affiliates

<table>
<thead>
<tr>
<th>ACCESS Ventures Holdings Pvt. Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
</tr>
<tr>
<td>Techno-managerial support</td>
</tr>
<tr>
<td>Access to markets</td>
</tr>
</tbody>
</table>

Brands that support Products of the Poor

- ACCESS
- ASSIST
- Ode to Earth
- JIADE
- STRIPES
- TAMARA Gourmet Spices
India: The MSMEs Sector at a Glance

The MSME Sector in India is important

- Consists of 29.8 million units, of which only 1.8 million are registered
- MSMEs in the manufacturing account for about 29%, with 71% in the services sector.
- SMEs contributes 8% to the nation’s GDP
- Food processing is the key manufacturing industry (19%), and also is largely export oriented.
- 94% of these enterprises are unregistered, and in the unorganized sector
- MSMES contribute
  - 45% to the country’s manufacturing output
  - 40% to exports
  - Employs 80 million persons
  - Produces over 6,000 item
- The sector has been growing at an effective rate of 4% annually

1 Govt. on India (2017), MSME at a Glance, Ministry of Micro, Small & Medium Enterprises, pp 1.
Definition of SMEs in India
As per the MSMED Act, 2006¹,²

<table>
<thead>
<tr>
<th>Categories</th>
<th>Manufacturing (investment in plant &amp; machinery)</th>
<th>Services (investment in equipment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Does not exceed INR 2.5 million (USD 38,226³)</td>
<td>Does not exceed INR 1 million (USD 15,291)</td>
</tr>
<tr>
<td>Small</td>
<td>More than INR 2.5 million (USD 38,226) but does not exceed INR 50 million (USD 764,526)</td>
<td>More than INR 1 million (USD 15,291) but does not exceed INR 20 million (305,810)</td>
</tr>
<tr>
<td>Medium</td>
<td>More than INR 50 million (USD 764,526) but does not exceed INR 100 million (USD 1,529,052)</td>
<td>More than INR 20 million (USD 305,810) but does not exceed INR 50 million (USD 764,526)</td>
</tr>
</tbody>
</table>

The definition is based on investment limits.

² Source: Govt. of India (2016), Committee Set up to Examine the Financial Architecture of the MSME Sector.
³ USD 1 = INR 65.40 as on 16 Nov 2017.
Defining Agri SMEs

- Agriculture is an important sector in India.
- Agri related SMEs are those businesses that operate within the agriculture value chain.
- These can include individual farmers and producers, as long as they are producing at a scale and where they need capital and support services to grow.

Agri SMEs could have different legal structures:
Sole Proprietorship partnership, LLC, Private Ltd. Co. Producer Cos., Cooperatives, NGO Businesses, NGOs
The Lending Landscape
The Supply Side Financial Ecosystem for SMEs

- A fairly well developed financial institutional infrastructure exists in India for financing SMEs – both short term as well as long term.
- Financial flows to the sector are well tracked by the RBI, Govt.
Demand Estimation SME finance
Methodology for extrapolation

1. Estimate average finance demand per enterprise - basis Gross Value Added, Asset-Turnover ratio for 10 industries contributing 80%.

2. Estimate overall debt and equity demand – basis Asset Turnover ratio, adjusting & extrapolating on 10 industries contributing 80%.

3. Estimate immediately addressable debt demand – basis % of SMEs apply to banks / NBFCs, rate of rejection, sickness ratio etc.

4. Disaggregate immediately addressable debt demand – industry survey and on that basis extrapolation.

5. Disaggregate immediately addressable equity demand – industry survey and on that basis extrapolation.

Demand Estimation for Finance by the SMEs

Overall estimated demand: USD 650 Billion

Demand by registered enterprises: USD 50 Billion

Demand by unregistered enterprises: USD 600 Billion

Immediately addressable demand: USD 211 Billion

Immediately addressable debt demand: USD 198 Billion

Immediately addressable equity demand: USD 13 Billion

✓ About 94% among SMEs are unregistered enterprises.

✓ Finance demand of the unorganized SMEs is not part of the total estimated demand.

# India: Demand for Finance by the SMEs

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (USD Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total finance demand</td>
<td>650</td>
</tr>
<tr>
<td>Entrepreneur's contribution</td>
<td>92</td>
</tr>
<tr>
<td>Potential finance demand</td>
<td>558</td>
</tr>
<tr>
<td>Formal supply</td>
<td>140</td>
</tr>
<tr>
<td>Total finance gap</td>
<td>418</td>
</tr>
<tr>
<td>Total debt gap</td>
<td>380</td>
</tr>
<tr>
<td>Total equity gap</td>
<td>38</td>
</tr>
</tbody>
</table>

**Source:** International Finance Corporation (2012), *Micro, Small and Medium Enterprise Finance in India*, pp 76.
Demand for Finance (estimate)
For Rural, Agriculture and Food processing SMEs

✓ Estimation: Rural SMEs are 60% in number of total SMEs, contributing around 40% in gross value added, extrapolating accordingly.

✓ Similarly, agri, allied and food processing SMEs form 22.4% in number contributing around similar percentage in gross value add, worked out accordingly as proportion of total demand.
Govt. Policy Initiatives to Enhance Credit Flow

- ‘Priority Sector Lending’ - 7.5% (of Net Bank credit) to SMEs
- SIDBI & MUDRA established to facilitate easy access to credit
- Several credit guarantee (CGTSME) schemes
- Professional credit intermediaries/advisors for SMEs like SIDBI’s Udyami Mitra
- Refinance incentives to lending institutions by MABARD, SIDBI, MUDRA
- Stand Up / Start Up schemes of the Government
Some quick suggestions for demand tracking

• SIDBI’s web portal capturing demand for finance from the SMEs
• Govt.’s annual survey of industries to provide data on number of SMEs, Gross Value Add, investment in assets etc. to provided different demand estimates.
• Integrating demand potential as a part of NABARD’s Perspective Linked Plans (PLPs) to provide demand estimates.
• Credit bureau information for SMEs applying for finance from banks and NBFCs
• Through the Stand Up / START UP India portals
• Through the MUDRA portal
• Annual Survey of Industries (provides no. of enterprises / employment data)
• Economic Census of India – possibility for integration
• SIDBI’s Udhayami Mitra Scheme based on IT architecture for capturing financial and non financial service needs through 12,5000 bank branches and 17,000 hand holding agencies
• Through MFIs / FPOs
THANKS